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INFORMATION REPORT

CD NO.

COUNTRY Czechoslovakia/Yugoslavia

DATE DISTR. 27 Dec 1948

SUBJECT Supplement to the Czechoslovak-Yugoslav
Investment Agreement

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PLACE 25X1A2g
ACQUIRED 25X1A6a

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(LISTED BELOW)

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SUPPLEMENT TO
REPORT NO.

- 25X1A6a 25X1A2g
1. The Investment Agreement has a supplementary agreement known as the "Z" agreement. This agreement, which deals with capital investment equipment for the Yugoslav war industry, is a secret contract. [REDACTED] Comment: [REDACTED] for the text of the main portion of this treaty, which was signed on 24 May 1948.)
 2. The value of the deliveries for which it provides is approximately 800 million Czechoslovak crowns. This sum is included in the amount of 7.5 billion Czech crowns envisaged for the Investment Agreement.

The "Z" agreement provides for deliveries for the following plants and factories:

a. Infantry and Revolver Ammunition Factory

- 1) Complete installation of an infantry and revolver ammunition factory. The part of the plant for making revolver ammunition has already been delivered by Messrs. Sellier & Bedot of Vlasin (near Benesov) from their own surplus material reserves. The rest of the installation is being delivered by the Brno Arms Factory, part of it being manufactured by this firm and the rest with the help of other machine factories. The Brno Arms Factory is responsible for the performance of the plant when erected. A part of the machinery required will not be ordered from the Czechoslovak firms concerned because Yugoslav is to receive them as reparation deliveries from Germany and Austria. The Brno Arms Factory also has to supply special appliances, tools, and drawings. It is also at the disposal of the Yugoslav authorities should the latter require technical assistance in assembling or operating the plant. Services of this kind will be paid for separately.
- 2) The agreement for the above factory was signed in the middle of 1947. The period of delivery runs to the end of 1948. Up to the present the name of the place where the factory is to be built has not been disclosed. It is known, however, that it will be installed in underground tunnels.

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b. Plant for Production of 20 mm to 57 mm Caliber Artillery Ammunition

- 1) The firm entrusted with these orders is Skoda, which, however, is not supplying the whole installation, since approximately 35 percent of the machine tools required are already in possession of the buyer.
- 2) The principal types of ammunition which the factory will produce are shells for 20 mm automatic weapons and AP shells of Soviet pattern, 37 mm and 45 (?) mm.
- 3) The plant is not ultra-modern but is about on a par with what would have been technically up to date in 1934-36.
- 4) The machinery is to be set up in tunnels, the location of which is unknown to Skoda.
- 5) Generally speaking, the delivery conditions are the same as for the construction of the infantry and revolver ammunition factory referred to above. The agreement, which was signed at the end of 1947 provides for completion of deliveries to be completed by the middle of 1949/

c. Plant for Rifles, Automatic Arms, and Machine Guns

The Brno Arms Factory is to supply this plant. Negotiations on the matter were still in progress in the middle of March 1948, but they have presumably been completed. The period of delivery runs to the middle of 1949.

d. Explosives Factory

- 1) The explosives to be produced are nitroglycerine and diglycol powder, tritol, and industrial explosives.
- 2) Messrs. Skoda are to deliver the equipment and will collaborate with the firm Explosia of Semtin for this purpose.
- 3) The negotiations were started in the middle of 1946 and were suddenly broken off at the end of 1947. It appears that Poland had offered to Yugoslavia at a much lower price a complete plant of similar design, which had been left intact by the Germans in the part of their territory which went to Poland.

e. Plant for Manufacture of 75 mm to 122 mm Medium Caliber Artillery

- 1) Most of the machinery required was already in the possession of Yugoslavia, or was already available in Czechoslovakia at the end of the war.
- 2) Skoda was given the task of planning the layout of the factory and of delivering any part of the machinery which still remained to be found.
- 3) The factory was essentially provisional in nature, and was to be equipped with out of date machinery. Its production was to be fairly small.
- 4) Negotiations concerning the delivery contract for this factory are not yet complete.

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f. Gun Factory

- 1) Negotiations for building a gun factory have not yet begun. When constructed the factory will produce 75 mm mountain guns and 105 mm light field howitzers.
- 2) Skoda is designated as the supplier.
- 3) The forgings and castings will be delivered by the Zenica steel works.
4. The credit of 800 million Czech crowns will presumably suffice to cover only items a, b, and e, and possibly c of the six projects named above. In any case the time schedules are likely to be considerably exceeded. The Yugoslavs refused to employ Czechoslovak technicians, so as to avoid having to disclose where the plants are to be built. Technically speaking, however, it is almost inconceivable that the Yugoslavs will prove capable of constructing the works and putting them into operation successfully without outside help.
5. The "Z" agreement has been given highest priority in both time and importance and the Czechoslovak Government is fostering it with every means at its disposal.
6. All deliveries made under the "Z" agreement are to be paid for in cash within thirty days of the date of consignment. The Czechoslovak National Bank offers, however, to pay suppliers an advance installment in the form of a credit not exceeding 33 percent of the purchase price.

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